

Message Text

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FM US MISSION EC BRUSSELS

TO SECSTATE WASHDC PRIORITY 1054

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E.O. 11652: N/A

TAGS: EFIN EEC

SUBJECT: APRIL 26 EC FINANCE CONFERENCE -- FINANCE MINISTERS AGREE
IN PRINCIPLE TO ADDITIONAL SUPPORT FOR ITALY

REFS: (A) EC BRUSSELS 3162, (B) LUXEMBOURG 361

1. BEGIN SUMMARY: EC FINANCE MINISTERS AND CENTRAL BANK GOVERNORS MET INFORMALLY IN LUXEMBOURG ON APRIL 26 TO DISCUSS MEASURES TO IMPROVE EC ECONOMIC AND MONETARY POLICY COORDINATION AND TO REDUCE UNEMPLOYMENT LEVELS. EC COMMISSION AND COUNCIL OFFICIALS TELL US THAT NO AGREEMENT WAS REACHED ON THESE ISSUES. THE MAY FINANCE COUNCIL AND JUNE TRIPARTITE CONFERENCE WILL CONTINUE THESE DISCUSSIONS. THE MINISTERS AGREED IN PRINCIPLE TO GRANT ADDITIONAL SUPPORT FOR ITALY, SHOULD THE GOI REQUEST IT. IN ADDITION, EC CENTRAL BANKS PLAN TO RESTRICT THE CONVERSION OF LARGE LIRE NOTES OUTSIDE OF ITALY. END SUMMARY.

2. CREDIT TO ITALY: AT AN INFORMAL MEETING OF EC FINANCE MINISTERS AND CENTRAL BANK GOVERNORS, OUR SOURCES SAY THAT AGREEMENT WAS REACHED IN PRINCIPLE TO
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EXTEND TO ITALY ABOUT \$1.5 BILLION UNDER THE EC SHORT-TERM

CREDIT FACILITY. THE UK REPORTEDLY MAY OPT OUT OF THIS CREDIT. THIS WOULD MEAN THAT SHOULD THE GOI DECIDE TO REQUEST IT, THE TOTAL AMOUNT AVAILABLE TO ITALY FOR A THREE MONTH PERIOD WOULD BE ABOUT \$1.1 BILLION. THIS FACILITY PROVIDES FOR A ONE-TIME ROLL OVER, BUT LAST YEAR ITALY RECEIVED AN EXCEPTIONAL SECOND EXTENSION TO THE SHORT TERM CREDIT. SUBSEQUENTLY THE GOI REPAID THIS CREDIT WHEN IT RECEIVED AN EC MEDIUM-TERM CREDIT. THE MINISTERS ALSO AGREED IN PRINCIPLE TO PROVIDE TO ITALY THE REMAINING FUNDS AVAILABLE TO IT UNDER THE EC MEDIUM-TERM CREDIT FACILITY. ITALY COULD DRAW UP TO \$800 MILLION UNDER THE FACILITY, BUT OUR SOURCES BELIEVE THE UK AND PERHAPS OTHERS MIGHT OPT OUT OF SUCH A CREDIT. THIS WOULD GREATLY REDUCE THE AVAILABLE AMOUNT. THE EC MONETARY COMMITTEE IS NOW TAKING UP THE ARRANGEMENTS FOR THESE CREDITS. WE DO NOT KNOW IF THE GOI INTENDS TO REQUEST THESE ADDITIONAL CREDITS.

3. RESTRICTIONS ON LIRE NOTE CONVERSIONS: THE MINISTERS AT LUNCH ALSO TOOK UP A PROPOSAL BY EC CENTRAL BANK GOVERNORS TO RESTRICT THE ILLEGAL EXPORT OF ITALIAN CURRENCY. ITALIAN AUTHORITIES REPORTEDLY SUGGESTED THAT THE EC TAKE MEASURES TO RESTRICT SUCH ILLEGAL CAPITAL FLIGHT. EC CENTRAL BANKS PROPOSED TO RESTRICT THE CONVERSION OF ITALIAN 50,000 AND 100,000 LIRA NOTES IN ALL MEMBER STATES, EXCEPT ITALY, EITHER THROUGH COMPULSORY MEASURES OR BY PERSUADING COMMERCIAL BANKS TO ACT VOLUNTARILY. THE MINISTERS INFORMALLY AGREED TO THIS PROPOSAL AND WE ARE TOLD THAT IT WILL BE IMPLEMENTED SHORTLY. THESE MEASURES ARE TO BE APPLIED FLEXIBLY ACCORDING TO THE LAWS OF EACH MEMBER STATE. THE GOVERNORS RECOMMENDED AGAINST MEASURES RECENTLY ADOPTED BY SWITZERLAND TO CONTROL PHYSICALLY THE TRANSMISSION OF LARGE LIRE NOTES. INSTEAD, THEY WILL REQUEST COMMERCIAL BANKS TO RESTRICT CONVERSION OF THESE NOTES.

4. ECONOMIC AND MONETARY COORDINATION: AN EC COMMISSION PAPER OUTLINED THE DIVERGENCIES IN MEMBER STATE ECONOMIES AND PROPOSED HARMONIZATION MEASURES ALONG THE LINES OF ITS RECOMMENDATIONS TO THE APRIL 1-2 EUROPEAN COUNCIL (SEE REFTELS). COMMISSION VICE PRESIDENT HAFERKAMP ASKED WHETHER LIMITED OFFICIAL USE

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MEMBER STATES WERE WILLING TO TAKE SANCTIONS AGAINST MEMBER STATES FAILING TO MEET AGREED-UPON ECONOMIC POLICY GUIDELINES. FINANCE MINISTERS OPPOSED SUCH SANCTIONS, BUT WERE PREPARED TO REQUIRE MEMBER STATES TO JUSTIFY THEIR ECONOMIC POLICIES.

5. MEMBER STATE COMMENTS: FRG FINANCE MINISTER APEL ATTRIBUTED CURRENT ECONOMIC DIVERGENCIES AND MONETARY

DIFFICULTIES TO POOR MEMBER STATE ECONOMIC MANAGEMENT. HE ADDED THAT POOLING OF EXCHANGE RESERVES AND EXTENSION OF EC CREDITS WOULD NOT SOLVE THE UNDERLYING PROBLEMS. THE DANISH FINANCE MINISTER STATED DENMARK INTENDED TO STAY IN THE SNAKE AND WAS ADAPTING ITS ECONOMIC POLICIES TO MEET THIS MONETARY OBJECTIVE. UK CHANCELLOR HEALEY NOTED THAT AT THE JULY FINANCE CONFERENCE IN VENICE MEMBER STATES AGREED TO ADJUST THEIR ECONOMIC POLICIES TO COUNTERACT THE RECESSION. THESE COMMON MEASURES HELPED TO START THE CURRENT ECONOMIC RECOVERY. THIS EXPERIENCE POINTS TO THE UTILITY OF ACTING TOGETHER. HEALEY EXPECTED THAT THE POUND EXCHANGE RATE WOULD STABILIZE AND EVEN IMPROVE BY YEAR END AS THE UK ECONOMY IMPROVED. HE FORECASTED THAT THE UK WOULD BE ABLE TO REACH A SATISFACTORY ECONOMIC POLICY WITH THE LABOR UNIONS. ITALIAN FINANCE MINISTER COLOMBO THOUGHT CURRENT EC COORDINATION PROCEDURES WERE ADEQUATE. THE UNDERLYING PROBLEM WAS GAINING PUBLIC ACCEPTANCE OF NECESSARY STABILIZATION POLICIES. HE CONSEQUENTLY SUGGESTED INVOLVING PARLIAMENTS AND THE SOCIAL PARTNERS IN DISCUSSIONS OF EC POLICY GUIDELINES.

6. UNEMPLOYMENT PROBLEM: CHANCELLOR HEALEY PRESENTED A PAPER POINTING OUT THE NEED TO EXPAND FURTHER ECONOMIC OUTPUT IF UNEMPLOYMENT LEVELS WERE TO BE REDUCED OVER THE MEDIUM-TERM. IN ITS PAPER, THE EC COMMISSION RECOMMENDS SUBSIDIES TO INDUSTRY TO INCREASE EMPLOYMENT AND A SERIES OF MEASURES TO PROMOTE JOB MOBILITY, EMPLOYMENT OF YOUTH AND ON THE JOB TRAINING. THE FINANCE MINISTERS REACHED NO AGREEMENT ON THESE PROPOSALS, BUT SUGGESTED THAT THE COMMISSION DRAW UP PAPERS FOR THE MAY 17 FINANCE COUNCIL AND FOR THE TRIPARTITE CONFERENCE OF SOCIAL PARTNERS WHICH IS SCHEDULED FOR LATE JUNE.

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7. CONCLUSION: EC OFFICIAL SAY NO CONSENSUS WAS REACHED AT THE MEETING ON EC ECONOMIC PROBLEMS, BUT THEY DRAW THE FOLLOWING CONCLUSIONS FROM THE DISCUSSION: 1) MOST MINISERS BELIEVE THT GOVERNMENTS ARE LIMITED TO THEIR ABILITY TO CORRECT QUICKLY THE MEMBER STATE ECONOMIC DIVERGENCIES AND UNEMPLOYMENT LEVELS; 2) THERE IS NO AGREEMENT ON THE POLICY TOOLS THAT SHOULD BE USED; IT WILL BE UP TO EACH MEMBER STATE TO ADOPT POLICIES TO MEET ITS OWN PROBLEMS. 3) EXCEPT FOR THE FRG, GOVERNMENTS LACK SUFFICIENT POLITICAL SUPPORT TO TAKE STRONG CORRECTIVE MEASURES. INSTEAD, GOVERNMENTS MUST SEEK A CONSENSUS AMONG OPPOSING FACTIONS BEFORE EFFECTIVE POLICIES CAN BE ADOPTED. AS A RESULT, THE MINISERS ARE GIVING ATTENTION TO THE TRIPARTITE CONFERENCE OF SOCIAL PARTNERS, I.E., GOVERNMENTS, BUSINESS AND LABOR LEADERS, IN THE HOPES THAT IT WILL HELP PROMOTE A PUBLIC CONSENSUS ON COMMON POLICY MEASURES. 4) MEMBER STATES WILL CONTINUE TO WORK THROUGH EXISTING EC INSTITUTIONS TO INCREASE UNDERSTANDING OF EACH OTHER'S PROBLEMS AND TO ASSIST EACH OTHER WHEN NECESSARY.

8. THE MISSION HAS OBTAINED COPIES OF EC COMMISSION'S
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PAPERS ON CURRENT EC ECONOMIC PROBLEMS, AND UNEMPLOYMENT PROSPECTS. IT ALSO HAS A COPY OF THE UK'S PAPER ON THE OUTLOOK FOR EC UNEMPLOYMENT. COPIES OF THESE PAPERS WILL BE SENT TO INTERESTED WASHINGTON AGENCIES, INCLUDING STATE/RPE-CLARK.HINTON

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Message Attributes

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